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Morgenson: Repaying Taxpayers With Their Own Cash

As we inch closer to a clearer understanding of the products and practices that unleashed the credit crisis of 2008, it's becoming apparent that those seeking the whole truth are still outnumbered by those aiming to obscure it. This is the case not only on Wall Street but also in Washington, Gretchen Morgenson writes in her latest column in The New York Times.

Truth seekers the nation over, therefore, are indebted to Senator Charles E. Grassley, Republican of Iowa, who in recent days uncovered what he called a government-enabled "TARP money shuffle." It relates to **General Motors**, which on April 21 paid the balance of its \$6.7 billion loan under the Troubled Asset Relief Program.

G.M. trumpeted its escape from the program as evidence that it had turned the corner in its operations. "G.M. is able to repay the taxpayers in full, with interest, ahead of schedule, because more customers are buying vehicles like the Chevrolet Malibu and Buick LaCrosse," boasted Edward E. Whitacre Jr., its chief executive.

G.M. also crowed about its loan repayment in a national television ad and the **United States Treasury** also marked the moment with a press release: "We are encouraged that G.M. has repaid its debt well ahead of schedule and confident that the company is on a strong path to viability," said Timothy F. Geithner, the Treasury secretary.

Taxpayers are naturally eager for news about bailout repayments. But what neither G.M. nor the Treasury disclosed was that the company simply used other funds held by the Treasury to pay off its original loan.

Neil M. Barofsky, the inspector general overseeing the troubled asset program, revealed this detail when he spoke before the Senate Finance Committee on April 20.

"So it's good news in that they're reducing their debt," Mr. Barofsky said of G.M. But he went on to note that G.M. was using other taxpayer money to make the loan repayment, according to the transcript of his testimony.

Armed with this information, Mr. Grassley fired off a letter to Mr. Geithner on April 22, asking for details of the transaction. “I am concerned ... that this announcement is not what it seems,” he wrote. “In fact, it appears to be nothing more than an elaborate TARP money shuffle.”

Mr. Grassley heard back from the Treasury last Tuesday. Herbert M. Allison Jr., assistant secretary for financial stability, confirmed that the money G.M. used to repay its bailout loan had come from a taxpayer-financed escrow account held for the automaker at the Treasury.

Emphasizing that the cash in the account was “the property of G.M.,” Mr. Allison said that the department had approved the company’s use of the money to retire the original debt because it was “consistent with Treasury’s goal of recovering funds for the taxpayer and exiting TARP investments as soon as practicable.”

It’s certainly understandable that G.M. would want to spin its repayment as proof of improving operations. But Mr. Grassley said he was troubled that the Treasury went along with the public relations campaign and didn’t spell out how the loan was retired.

“The public would know nothing about the TARP escrow money being the source of the supposed repayment from simply watching G.M.’s TV commercials or reading Treasury’s press release,” Mr. Grassley said in a speech on the Senate floor last Wednesday, saying that “many billions” of federal dollars remained invested in G.M.

“Much of it will never be repaid,” Mr. Grassley added. “The [Congressional Budget Office](#) estimates that taxpayers will lose around \$30 billion on G.M.”

(Taxpayers still own \$2.1 billion in preferred stock of G.M. and almost 61 percent of its common equity.)

Greg Martin, a G.M. spokesman, said the company had made no misrepresentations about its repayment. “The bottom line is, our strong business performance has put us in the position that we don’t need these funds,” he said, referring to the cash in the escrow account. “G.M. is performing much better than anyone expected and that does represent a significant milestone for the company.”

And Ron Bloom, senior adviser to Mr. Geithner, bristled at Mr. Grassley’s criticism. “The Treasury Department has tried to be as straight as humanly possible,” he said in an interview. “We have never not been clear about exactly

what we paid, exactly the terms of the investment. I'm finding it hard to find anyone obfuscating about this."

Of course, there is much joy in Mudville when a recipient of government aid repays its obligations. And it is also natural that the administration is keenly interested in reassuring taxpayers that losses on their bailout billions will be smaller than expected. Still, employing spin and selective disclosure is no way to raise taxpayers' trust in our nation's leadership.

In an interview, Mr. Grassley said the Treasury had stopped "denying" that G.M. used federal funds to repay its TARP loan, but the fact that Treasury hadn't been upfront about it still troubled him.

"It emphasizes how misleading Treasury was and how misleading G.M. is as well," said Mr. Grassley. "I hope Treasury learns its lesson, and that is: Tell it like it is, and if you tell it like it is you don't get egg on your face."